

# Most Frequently Asked Questions

**Today, hundreds of thousands of individuals could be eligible for the Health Coverage Tax Credit (HCTC). The following is a list of questions most frequently asked about the tax credit.**

## General Information

### 1. What is the HCTC and who is eligible?

The Health Coverage Tax Credit (HCTC) is a federal tax credit that pays 65% of the qualified health plan premiums paid by eligible individuals. There are two ways to claim the credit: in advance – on a monthly basis – to help pay health plan premiums as they come due, or when filing federal tax returns. These methods may also be combined. The following individuals are potentially eligible for the tax credit: individuals certified by the U.S. Department of Labor to receive certain benefits under the Trade Adjustment Assistance (TAA) program or Alternative Trade Adjustment Assistance (ATAA) program and some individuals who receive benefits from the Pension Benefit Guaranty Corporation (PBGC).

### 2. What is Trade Adjustment Assistance?

Trade Adjustment Assistance (TAA) is a program administered by the U.S. Department of Labor for workers who lose their jobs, or whose hours of work and wages are reduced as a result of increased imports or shifts in company production to foreign countries. TAA includes a variety of benefits and reemployment services to help unemployed workers prepare for and obtain suitable employment. Workers may receive assistance in skill assessment, job search workshops, job development, referral, and job placement. In addition, workers may be eligible for training, job search allowances, relocation allowances, and the HCTC. Weekly Trade Readjustment Allowances (TRA) may be payable to eligible workers following their exhaustion of unemployment insurance benefits. Usually, TRA benefits will be paid only if an individual is enrolled in a TAA-approved training program. To learn more about TAA, visit the U.S. Department of Labor Employment and Training Administration website at [www.doleta.gov](http://www.doleta.gov).

### 3. What is Alternative Trade Adjustment Assistance?

The Alternative Trade Adjustment Assistance (ATAA) program is an alternative assistance program for older workers who are certified as eligible to apply for Trade Adjustment Assistance. ATAA is designed to allow TAA eligible workers age 50 and above (for whom retraining may not be appropriate) who find reemployment to receive a wage subsidy to help bridge the salary gap between their old and new employment. To receive the ATAA benefits, workers must be TAA- and ATAA-certified. Contact the U.S. Department of Labor Employment and Training Administration (DOLETA) for more information.

#### **4. What is the Pension Benefit Guaranty Corporation (PBGC)?**

The PBGC is a federal corporation which insures the pension benefits of about 43 million working men and women in nearly 40,000 private sector "Defined Benefits Pension Plans." The PBGC was created on September 2, 1974 when the "Employee Retirement Income Security Act (ERISA) of 1974" was enacted.

A defined pension plan that does not have enough money to pay benefits may be terminated if the employer responsible for the plan faces severe financial difficulty, such as bankruptcy, and is unable to maintain the plan. In cases such as these, the PBGC then pays pension benefits under the terms of the plan, subject to legal limits, to plan participants and beneficiaries. The majority of the plans the PBGC has insured have been in the manufacturing, steel and airline industries. To learn more about the PBGC, please visit their website at [www.pbgc.gov](http://www.pbgc.gov).

#### **5. How can I determine if an individual may be eligible for the HCTC?**

To begin with, you may ask the individual if he or she is now, or was during any part of the tax year:

1. Receiving benefits under the Trade Adjustment Assistance (TAA) or the Alternative Trade Adjustment Assistance (ATAA) programs?
2. Receiving payments from the Pension Benefit Guaranty Corporation (PBGC), including lump sum payments received after August 5, 2002, and is between the ages of 55 and 65?

If the individual answers yes to one of these questions, then he or she is potentially eligible to receive the HCTC. You may also refer to the HCTC eligibility chart (IRS Publication 4251).

#### **6. What are the main reasons an individual would not be eligible for the HCTC?**

Individuals are not eligible for the HCTC if they:

- are not receiving pension payments from PBGC or benefits under TAA/ATAA
- are eligible for Medicare, or have another form of disqualifying health coverage
- are not enrolled in a qualified health plan option
- are imprisoned by a federal, state, or local authority
- can be claimed as a dependent on another individual's federal tax return

#### **7. Where can I get more information about HCTC eligibility requirements?**

Visit [www.irs.gov](http://www.irs.gov) (IRS Keyword: HCTC). You may also call the HCTC Customer Contact Center toll-free at 1-866-628-HCTC (4282), TDD/TTY 1-866-626-4282.

#### **8. Do I need a power of attorney to call the HCTC Customer Contact Center on behalf of my client?**

No. However, as your client's tax preparer, you must be authorized by him or her to discuss his or her HCTC account. The eligible individual may authorize the tax preparer on the HCTC Registration Form or call the HCTC Customer Contact Center to request that the tax preparer be set up as a third party designee.

#### **9. If an individual received the HCTC last year, is he or she automatically eligible to receive it this year?**

No. Eligibility for the HCTC is determined on a monthly basis. For each month an individual claims the credit, whether in advance or on their federal tax return, he or she must also be eligible for TAA/ATAA or PBGC and enrolled in a qualified health plan.

## Health Plans

### 10. What is a qualified health plan?

A qualified health plan is one that is allowable under the HCTC legislation. Only certain types of health plans qualify for the HCTC. The following health plan options are qualified for the HCTC:

- a. COBRA: This is temporary continuation coverage that is required to be offered under the federal Consolidated Omnibus Budget and Reconciliation Act of 1985 by most employers with group health plans. Employees are offered the opportunity to continue coverage under their employers' plans in the case of layoffs, terminations, or other qualifying events.
- b. Non-group (individual) coverage: This coverage type, usually purchased through an insurance company, agent, or broker, must have been purchased so that coverage began 30 days prior to the date the individual separated from the job that led to the receipt of or qualification for TAA benefits, ATAA benefits, or PBGC benefits.
- c. Spousal coverage: This is coverage under a group plan that is available through the employment of an eligible individual's spouse where the spouse's employer contributes less than 50% of the cost of coverage. This type of coverage can be claimed only when individuals file their federal tax returns and not in advance, except for spousal COBRA coverage. Additional restrictions apply to ATAA benefit recipients.
- d. State-qualified health plan: This coverage type consists of health plans that state Departments of Insurance may have qualified specifically for the HCTC Program. The coverage must meet the legislative requirements for health insurance set forth in the Trade Act of 2002. Not all states have a health plan that qualifies for the HCTC.

### 11. How do I find out if a particular state has qualified health plans for the HCTC?

For a listing of HCTC state-qualified plans, visit the IRS website at [www.irs.gov](http://www.irs.gov) (IRS Keyword: HCTC).

## Tax Forms

### 12. What IRS publications can I use to help individuals claim the tax credit on their tax return?

IRS Publication 502, Medical and Dental Expenses, and Publication 17, Your Federal Income Tax for Individuals, provide information about the HCTC. These publications may be obtained through the web at [www.irs.gov](http://www.irs.gov) or by calling the IRS at 1-800-TAX-FORM.

### 13. What IRS tax forms should be used to claim the HCTC on a federal tax return?

Eligible individuals should use IRS Form 8885, Health Coverage Tax Credit, to claim the HCTC on their federal tax returns. This form helps them determine if they are eligible and provides instructions for claiming the tax credit. They should complete Form 8885, attach the supporting documentation, and file it along with Form 1040, 1040NR (long form), 1040PR (Puerto Rico), or 1040SS (self-employed). Form 8885 cannot be filed with 1040EZ or 1040A (short form).

#### **14. What documentation should be submitted to support one's claim for the HCTC on a federal tax return?**

Whether filing electronically or on paper, the following must be attached for all types of qualified health coverage: invoices and proof of payment for any amounts included on line 2 of IRS Form 8885 for the months in which the individual did not receive advance payments. For COBRA coverage, the COBRA election letter must also be attached. See the instructions of Form 8885 for detailed guidance on what to submit as supporting documentation.

#### **15. If the IRS Form 8885 is filed electronically, how should I provide the required documentation?**

When filing electronically, please be sure to attach required documents to Form 8453, U.S. Individual Income Tax Declaration for an e-file Return. If the return was e-filed through the On-Line system, then attach the documents to Form 8453-OL, U.S. Individual Income Tax Declaration for an e-file Online Return.

#### **16. Where can I obtain IRS Form 8885?**

You can obtain the form from the IRS website: <http://www.irs.gov/pub/irs-pdf/f8885.pdf> or by calling the IRS at 1-800-TAX-FORM (1-800-829-3676).

#### **17. Who sends IRS Form 1099-H and why?**

The HCTC Program sends the Form 1099-H to individuals who received one or more advance HCTC payments during the tax year. Form 1099-H displays the amount of the advance tax credit that was paid towards the qualified health plan premiums for the months in which the individual participated in the advance HCTC Program. If the individual intends to claim the HCTC on their tax return for months they were eligible but did not receive the advance HCTC, this form should be used to help complete Form 8885. However, it should be kept by the individual for his or her records and not be filed with the individual's tax return.

## **HCTC Candidates by Industry and Geography**

#### **18. Are there geographic areas that have a greater likelihood of including candidates for the HCTC?**

Yes. However, while the population of candidates for the HCTC Program is larger in certain geographic areas, new companies are being certified as trade impacted by the U.S. Department of Labor every month. Additionally, the Pension Benefit Guaranty Corporation trustees new plans every year. Therefore, HCTC candidate concentration locations are ever-changing.

#### **19. Can I get a list of companies whose pensions have been taken over by the PBGC?**

Yes. Refer to the PBGC website at [www.pbgc.gov](http://www.pbgc.gov) for this information.

#### **20. Can I get a list of companies whose employees have been recently certified for TAA benefits?**

Yes. You should refer to the U.S. Department of Labor Employee and Training Administration website at [www.doleta.gov/tradeact/](http://www.doleta.gov/tradeact/) for this information.